Weekly Economic Review

Housing market remains sluggish

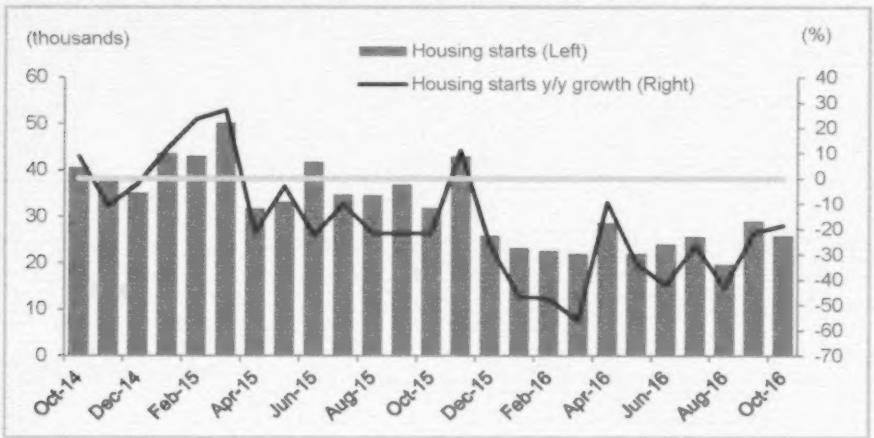
Housing Starts

Housing starts ease

Alberta's housing starts slipped in October following a surge in the previous month. Starts declined by over 3,000 units month-over-month (m/m) to 25,907 (annualized) but still remained higher than August 2016 levels (Chart 1). There were broad-based declines across all housing types. Regionally, the pace of activity diverged. Housing starts were up 42% m/m in Edmonton, fueled by an increase in multifamily units, while Calgary starts fell 46% m/m as both single-detached and multifamily starts weakened. Overall, housing starts have averaged about 24,100 units compared with the same period last year (-36% year-to-date or YTD). Nationally, housing starts fell to 192,928 units due in large part to a steep decline in British Columbia (-43% m/m).

Chart 1: Housing starts slip in October

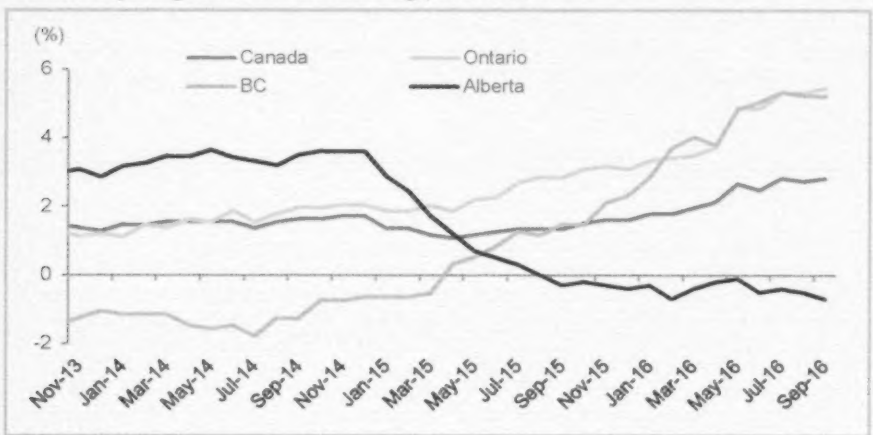
Alberta housing starts (annualized) and year-over-year growth



Source: Statistics Canada

Chart 2: Alberta new house prices bucking the national trend

Year-over-year growth in new housing price index



Source: Statistics Canada

New Housing Price Index

New house prices soften

Alberta's weak housing market continues to put modest downward pressure on new home prices. Although Alberta's New Housing Price Index (NHPI) was down slightly in September (-0.7% y/y), the house only component of the NHPI declined 1.3% y/y, outweighing higher land prices (+0.6% y/y). Nationally, new house prices continue to rise (+2.8% y/y) led by increases in Ontario and British Columbia. Following the introduction of the foreign buyers property transfer tax in Metro Vancouver, the growth in new home prices in British Columbia appears to be leveling off while prices continue to accelerate in Ontario (Chart 2).

Building Permits

New building code spurs permit issuance

Building permits rose for the third consecutive month. The value of building permits grew 10% m/m to $1.1 billion in September. Gains were reported in permits issued for residential (+19% m/m) and institutional and governmental buildings (+54% m/m). Conversely, permits issued for industrial (-50% m/m) and commercial buildings (-14% m/m) fell. The gain in residential permits was likely due to builders

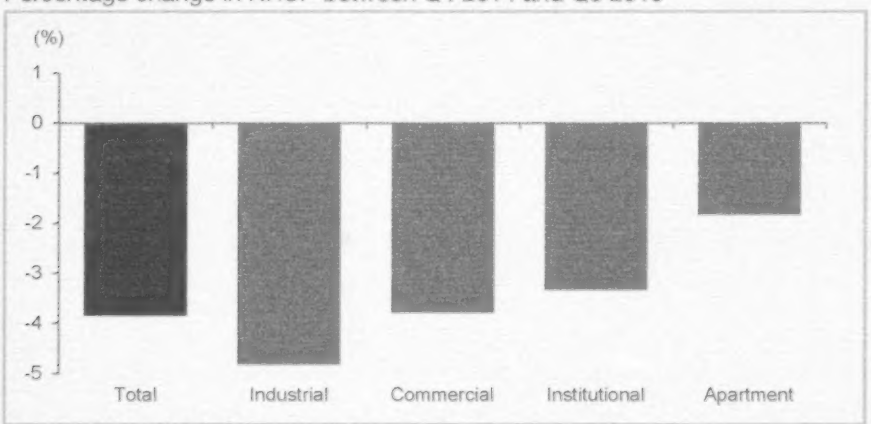
securing permits prior to implementation of building code changes, which took effect on November 1st. Despite gains in recent months, total building permits remain weak (-21% y/y) across all categories, most notably in residential (-16% y/y) and commercial (-41% y/y).

Construction Price Index

Construction costs hold steady

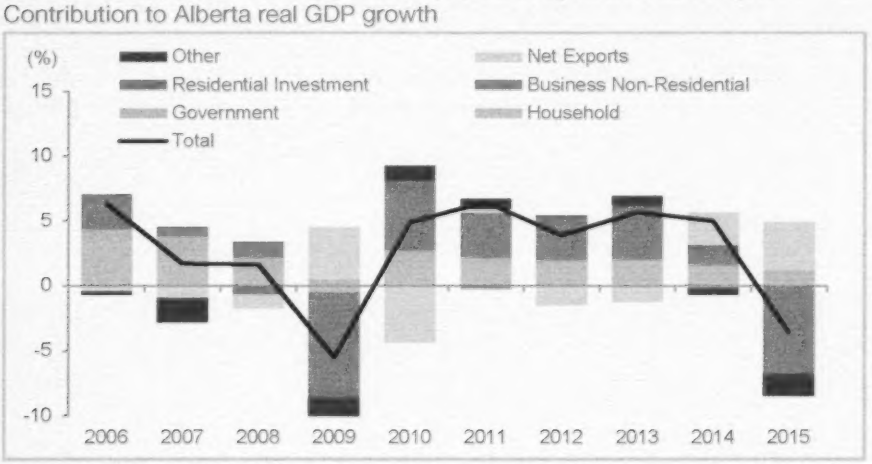
Non-residential construction costs in Alberta stabilized in the third quarter of 2016. Following four quarters of consecutive declines, the non-residential construction price (NRCP) index was roughly unchanged (+0.2% quarter-over-quarter or q/q). Year-over-year though, the NRCP index was down 2.6%. Since the start of 2015, construction costs in Alberta have declined, with the NRCP index down 3.8% since the start of 2015 (Chart 3). The decline was across the board but was more pronounced in industrial (-4.8%) and commercial buildings (-3.8%).

Chart 3: Broad-based declines in construction costs
Percentage change in NRCP between Q4 2014 and Q3 2016



Source: Statistics Canada

Chart 4: Sharp decline in business investment drags down real output
Contribution to Alberta real GDP growth



Source: Statistics Canada

Real GDP by Expenditure

Sharp pullback in investment

After five years of robust economic growth, the oil price shock caused the Alberta economy to contract in 2015. Real Gross Domestic Product (GDP) fell 3.6% led by a significant drop in non-residential investment (-25.5% y/y) which outweighed growth in most other categories (Chart 4). Unlike the economic downturn in 2009, household spending continued to grow in 2015 while residential investment was flat. Meanwhile, net exports increased as imports (-10.4% y/y) fell more than exports (-2.8% y/y). Despite the contraction in real GDP, Alberta continues to have the highest real income per capita in the country at $74,322, well above the national average of $49,380 and 34% above the next highest province (Saskatchewan).

GDP by Industry vs. GDP by Expenditure

Expenditure-based GDP is calculated by adding the final expenditures of the six sectors of the economy: households, non-profit institutions serving households, non-financial corporations, financial corporations, governments and non-residents. GDP by Industry measures the value of output generated by an industry less the value of intermediate inputs purchased from other industries. In spring 2016, Statistics Canada reported that Alberta GDP by Industry fell by 4.0% in 2015. While this estimate differs slightly from total GDP by Expenditure, growth in the two series track closely over time.

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Please see the *Alberta Economy - Indicators at a Glance* for a snapshot of Alberta indicators.